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Dear Officials of Federal Bank and **Thrift** Agencies:

I **am** writing on behalf of Rural Opportunities, Inc. to voice **our** opposition over several elements of the proposed changes to the regulations governing the **Community** Reinvestment Act (CRA). Rural Opportunities, Inc. (**ROI**) appreciates the opportunity to provide feedback regarding CRA.

While **we** agree with the agencies' stated goal of updating CRA regulations to keep pace with changes **in** the financial services industry, we **believe that such an** update should be aimed at strengthening and broadening the reach of CRA **as** opposed to **retracting it as** is reflected in the proposed rule. We appreciate this opportunity to comment on the proposed rule and to share with **you how** ROI has effectively used **CRA** to cultivate relationships with financial institutions and ensure that a full range of financial services and products are available to residents of the low and moderate income communities **we** work in.

Rural Opportunities, Inc. (ROI) **was** founded in 1969 **in** response to the critical needs of farm workers and other rural poor. The purpose of **ROI** is to create opportunities for the families **and** individuals **we** serve that will enable them to **confront and overcome** barriers that prevent access to economic, educational, social and political resources. **ROI** advocates for the empowerment of low-income individuals **and** families and promotes responsible development of the communities in which they live. With guidance from low-income individuals **and** communities, **ROI** develops and operates programs that create positive change **for** those it serves.

Rural Opportunities, Inc. has helped **thousands** of families **take** the first steps away from homelessness, farm labor camps, overcrowded **and** **substandard housing**, unemployment, and extreme poverty. It **leads** them to safe, affordable rental housing, adequate incomes and, in many cases, full time employment and home ownership.

ROI provides **services to** over 20,000 people annually. Since its inception, **ROI** has strengthened communities through a **myriad** of rural development **and** **service** activities. ROI's Housing and Economic Development Division fosters **partnerships** between municipalities, private and public funders, community groups, non-profits, for-profit developers, **and** service organizations to develop affordable housing **and** small business assistance programs **across** New York, New Jersey, Pennsylvania, Ohio, Michigan, Indiana **and** Puerto Rico.

CRA has been **vital** to the work of **ROI**. CRA **not only provides** an incentive for financial institutions to develop a relationship **with** ROI **and other** community based organizations, but it is also a critical

Established in 1969, Rural Opportunities, Inc. (ROI) is a private, not-for-profit regional community development and human service organization providing services to farmworkers, low-income families, and economically depressed communities throughout New York, Pennsylvania, New Jersey, Ohio, Indiana and Puerto Rico,

force in maintaining these relationships and in **keeping** banks committed to providing services and products to residents in low and moderate income communities.

THE IMPORTANCE OF CRA TO ROI

CRA opens the door for productive and responsive relationships between community-based organizations, like ROI, and the **banking** industry. These relationships have helped to yield outstanding results in communities served by **ROI**. Since **1980**, **ROI** has developed, improved and preserved over 6,200 affordable housing units. Since 1992, over 1,800 low and moderate income families have purchased their first home through **ROI's** Homeownership Assistance Program. Over half of these families are single parent, female-headed households with children. **ROI's** Enterprise Center has also made over 250 small business loans, bringing critically needed startup and business expansion capital into underserved areas. These impacts could **not have** been achieved without the participation of bank partners.

Spurred by CRA requirements, lenders frequently work with ROI to capitalize existing loan pools or create new products designed specifically to **target an underserved** market niche. For example, a number of lenders have joined **ROI's** Affordable Lending Alliance which brings together lenders, mortgage insurers, and local home buyer education programs to expand homeownership into underserved markets. **This** partnership met a clear community need and, if not for CRA, it is unlikely that the participating banks would have collaborated with **ROI** to forge this partnership.¹

Not only has CRA spurred lenders to provide **more** appropriate products, it has also encouraged lenders to become more involved in community education efforts. In Rochester and other areas throughout **ROI's** service area, lenders provide support to **ROI's** homebuyer education,

PREDATORY LENDING

While we applaud the agencies desire to develop CRA standards designed to curtail abusive lending practices, we are concerned that the proposed rule as drafted will not have the effect of actually preventing the practices we see perpetuated by predatory lenders in **our** neighborhoods.

If abusive lending practices are allowed to continue, community-based organizations, like ROI, will continue to act as the safety-net for victims of predatory lending and with increasing frequency, ROI and other community based organizations will need to spend more time addressing the emergencies created by abusive lenders.

ROI sees first hand the destructive force of predatory lenders on low income communities. The abusive and misleading lending practices of predatory lenders have worked to reverse the progress made by community based organizations across the country. As **ROI** is working to encourage homeownership, and help low income people build assets, predatory lenders are working to strip these homeowners of their equity and promoting financial products that erode individual's assets.

Differentiating predatory lending from responsible subprime lending **must** be done carefully. ROI is committed to working with low- and moderate-income individuals who, for a variety of reasons, including poor or non-existing credit histories or unstable employment background, are unable to secure conventional mortgage financing. As a member of the NeighborWorks® network, ROI provides

¹ Banks that joined the Alliance wanted to see the opinion letter issued by the Federal Reserve deeming an investment in the ROI Alliance to be a qualified CRA investment

these consumers with a **range** of financial services and products to enable them to become homeowners or rehabilitate their homes. These **homeowners may** otherwise be forced to a predatory product. We do **this both as** direct lenders **as well as** by working with conventional lenders.

Responsible subprime lending entails working **with a consumer to come up** with a **loan** product **at** a price and with **terms** that appropriately compensate the lender for **risk**, inclusion of reasonable **return** for the lender, **and** understandable **by and** appropriate for the borrower.

We believe that **the** proposed rules **must go further** to **ensure** that responsible lending is encouraged while at the same time **putting an end** to the practices that **are** clearly abusive and not developed with the well **being** of **the** consumer in **mind** such **as** charging of excessive fees, loan flipping, pre-payment penalties and **other** abusive lending practices.

We encourage **the** agencies to change the **proposed** predatory lending standard. The proposed rule specifies that predatory lending will **be** indicated **by** way of **foreclosed** value of the collateral, instead of the ability of the borrower to **repay**. While **this does address the** most destructive form **of** predatory lending – those ending in foreclosure – it **docs** not adequately **cover** all **cases** of predatory lending.

We believe that all lender **affiliates** should be **subject** to CRA evaluation. Affiliates can **erode** investments made by its parent **company**. While the parent **company** meets its CRA obligation, an **affiliate can** erase those gains with abusive lending practices, **resulting** in a **zero-sum** game. This alternative financing system cancels out CRA's goal – that of meeting lower income communities' credit needs. **We** encourage the agencies to include **all** affiliates **loans** when evaluated the **CRA** performance.

SMALL INSTITUTIONS

We oppose changing CRA regulations to **allow banks** with between **\$250 and** \$500 million to opt out of the investments **and services test that is** currently required **of** all banks with \$250 million **or** more in assets.

We believe that changing the definition of small **institutions** will decrease bank investments and services currently available **in** low- and moderate-income **communities and** will have a particularly negative impact on rural communities **that are** particularly reliant **on** the activity of smaller financial institutions. **As** reported in Harvard's Joint Center for Housing Studies report The 25th Anniversary **of** the Community Reinvestment Act: ACCESS to Capital in **an** Evolving Financial Services **System**, "rural communities are served by smaller banks that are not subject to the **same** degree to CRA scrutiny **as** larger banks and **from** the absence of well-developed **networks of** community-based **advocacy** organizations in **many** rural areas."

Rural Opportunities, Inc. has experience that confirms **this** observation, **Forty-six** lenders in New York (**21%** of all the lenders in **the state**), **have assets between \$250 and** \$500 million. They hold approximately \$1 **5.9** billion in **assets and** they **have 244** branches statewide. These **banks** also hold about \$1 **1.4** billion in deposits. **In the rural areas of New York, 9** lenders, or **more than 20%** of the lenders in these areas, would be affected by the **changes**. They hold over \$3.16 billion **in assets, have 184** branches, and hold almost \$9.4 billion **in deposits**.

Allowing these lenders to opt out of the investment and services tests will have a negative impact on investment in low income rural communities. Access to mortgage products and other retail banking services will be undermined in the rural areas of the Rural Opportunities service area.

With the elimination of the investments test, fewer lenders would have the CRA incentive to invest in Low Income Housing Tax Credits which has been a critical source of affordable rental housing and an important tool used by NWOs in our network. In addition, elimination of the services test would likely result in decreased bank activity in housing counseling or Individual Development Account (IDA) programs.

ENHANCED DATA DISCLOSURE

ROI applauds the move toward enhanced data disclosure on small business lending, but urges that the proposed rule needs to go further to ensure this data is actually put to good use in the CRA examination process.

The federal agencies propose that they will publicly report the specific census tract location of small businesses receiving loans in addition to the current items in the CRA small business data for each depository institution. This will improve the ability of the general public to determine if banks are serving traditionally neglected neighborhoods with small business loans. Also the regulators propose separately reporting purchases from loan originations on CRA exams and separately reporting high cost lending (per the new HMDA data requirement starting with the 2004 data).

The positive aspects of the proposed data enhancements do not begin to make up for the significant harm caused by the other proposals. Furthermore, the federal agencies are not utilizing the data enhancements in order to make CRA exams more rigorous. The agencies must not merely report the new data on CRA exams, but must use the data to provide less weight on CRA exams to high cost loans than prime loans and assign less weight for purchases than loan originations.

Rural Opportunities, Inc. is the only SBA micro loan intermediary serving rural portions of upstate New York. Access to capital for small business start up and expansion is a serious issue in both rural and urban areas and, if fully implemented, the enhanced data disclosure provisions of the proposed rule can be a powerful tool to increase access to capital in underserved markets.

Low income communities need access to a full range of financial services and products and small institutions play a key role in providing these services to rural communities. We encourage the agencies to retain the original definition of small institution.

We appreciate your attention to our concerns.

Sincerely,

John Wiltse
Director of Management Operations